

Objectives of Financial Institutions – Western & Islamic

Dr. Asad Zaman*

Abstract

To understand the functions of the financial institutions within a capitalist system, one must understand the spirit of capitalism. This paper argues that the spirit is the pursuit of wealth without any moral or social restraints. Western financial institutions represent an embodiment of this spirit. Furthermore, these institutions act in concert with social and political institutions and cannot be understood except within this context. Ultimately, the unrestrained pursuit of wealth leads to the concentration of wealth in the hands of a small number of the rich and powerful. Sustaining such outcomes within a democratic society requires radical changes in social values. Neither the spirit, nor the social values associated with capitalist society are compatible with Islam. Islamic financial institutions have practically attempted to modify the form of the institutions without affecting the spirit. Thus they end up performing the same functions as capitalist institutions and do not represent a genuine Islamic alternative.

Keywords: Islamic Finance, Capitalism, Pursuit of Wealth, Institutions, Social Values.

KAUJIE Classification: F21, G1, H4, I0, J4, M0

JEL Classification: G20, P5

1. Introduction

Understanding the objectives of financial institutions requires understanding the spirit behind such institutions, which led to their creation. To clarify with an example, consider the functions of an automobile through the components like carburetor, radiator, combustion chamber, steering wheels, etc. Also, one could consider its functions like driving to workplaces, for vacations, etc. However, focusing on this micro-structure would not lead to insights about how automobiles

* Asad Zaman is the Vice Chancellor, Pakistan Institute of Development Economics (PIDE) University, Islamabad. The paper is edited version of the paper presented in the Seminar on Ethics & Economics organized by the Center for Islamic Legislation and Ethics (CILE) Doha, Qatar, 10-12 June, 2014.

provided far greater mobility to human beings, and gradually brought about radical changes in social structures. They weakened bonds of community by allowing for separation of work and residences, and led to formation of urban and suburban social and concrete structures of special types. The proverbial failure to see the forest for the trees summarizes the issue under discussion.

Our discussion below adds two dimensions to what might be considered conventional answers to questions regarding the objectives of financial institutions – Western or Islamic. One is that instead of looking at financial institutions in isolation, we consider them as an integral part of a capitalist market economy. These are integrated into political, social, and moral institutions, and the whole has to be considered together. The second innovation is that we look at the institutions as manifestations of human purpose. To understand the observable manifestations, we must look through to the hidden purpose, which we call the spirit of capitalism.

2. The Spirit and the Flesh

There is a large and diverse set of financial institutions, and more new categories of financial instruments are continuously invented. To this author, Islamic finance, as being practiced, seems to be a new creation of capitalist finance (Zaman 2014). Focusing on the detailed functions of financial institutions would make it virtually impossible to see the underlying unity of purpose behind them. This underlying unity can be seen only with reference to the spirit of capitalism which underlies all this diversity of forms. There are two major aspects to this spirit of capitalism:

- a) Acquisition and accumulation of wealth is the only way to solve all human problems; and
- b) Pursuit of wealth is of such central importance that it over-rides all moral and ethical considerations.

An essential aspect of the “spirit” is that it lies behind the apparent manifestations and can be observed only indirectly. We first document our claims about the spirit of capitalism from three different authors.

2.1 The Three Authors

Max Weber (1930, p. 18) writes that the spirit of capitalism leads to Man dominated by the making of money -- as the ultimate purpose of his life. Economic acquisition is no longer the means for the satisfaction of his material needs.” While explaining the spirit of capitalism, he argues in the light of the religious beliefs. The Christian religion, both Catholic and Protestant, believed that poverty is desirable and richness or wealth is not;

for example, “It is easier for a camel to pass through the eye of a needle, than for a rich man to enter heaven.” However, the Calvinist sect of the Protestants came to believe that material wealth and affluence was a symbol of God’s pleasure. This led them to pursue wealth as a religious duty. This idea spread throughout the European society, and became the basis for the spirit of Capitalism.

R. H. Tawney (1998) writes that: “(Pre-Capitalist thought rests) on the assumption that the institution of property, the transactions of the market-place, the whole fabric of society and the whole range of its activities, (must be justified by) religion. Christianity has no more deadly foe than the acquisitive appetite. It was only gradually, and after a warfare not confined to paper, that (desirability of wealth became) an unquestioned truth.” Tawney argues that the challenge created by production of surplus wealth (via the industrial revolution) led to changes in religious attitudes towards wealth. Without intending it, these changes eventually legitimized pursuit of wealth and individualism within a religious framework.

Karl Polanyi (2001[1944]) writes that: “The Industrial Revolution was merely the beginning of (an extreme and radical) revolution – (the birth of the creed) that all human problems could be resolved given an unlimited amount of material commodities.” His book describes the “Great Transformation” that resulted when this materialist creed won hard fought battles, completely destroying existing social structures, to replace traditional beliefs about human welfare.

2.2 A Radical Revolution

All three authors trace different dimensions of the revolution that occurred in European history. One of these dimensions is the emergence of secular thought, according to which some areas of human existence and knowledge are outside the domain of religion. In particular, economics belongs to this area. Before the emergence of capitalist thought, the Biblical maxim that “love of money is the root of all evil” was widely believed. After the revolution in thought, society, politics and economics that created modern secular society, it came to be equally widely believed that “lack of money is the root of all evil” (Bernard Shaw).

A crucial point to be understood here is that the change was affected by the destruction of social, political and economic structures and through their replacement by new institutional structures aligned with the spirit of pursuit of wealth. For example, Polanyi (2001) describes an initial step of this revolution, which was the privatization of common lands in England, as follows:

The fabric of society was being disrupted; desolate villages and the ruins of human dwellings testified to the fierceness with which the revolution raged, endangering the defenses of the country, wasting its towns, decimating its population, turning its overburdened soil into dust, harassing its people and turning them from decent husbandmen into a mob of beggars and thieves.

Later steps in this revolution were even more dramatic.

We submit that an avalanche of social dislocation, surpassing by far that of the enclosure period, came down upon England; that this catastrophe was the accompaniment of a vast movement of economic improvement; ... the history of nineteenth century civilization consisted largely in attempts to protect society against the ravages of such a mechanism..

It was this revolution which created the possibility of new types of economic structures which would accommodate the newfound social permissibility of accumulation and hoarding of wealth. One of these new institutions was the bank. We will argue later that one of the main functions of the bank, as well as all other institutions in a capitalist society, is the collection of money from the poor and distribution of this money to the already wealthy – we may refer to this as the “*Vacuum Cleaner effect*”, to contrast with the infamous “*trickle-down effect*.” This should be contrasted with Islamic imperatives for the circulation of wealth from the rich to poor – The Qur’ān is strong in its emphasis on generosity, on the rights of the poor to the wealth of the rich, and on commands to spend in the way of Allah.

2.3 The Conflict between Markets and Society

The goal of this subsection is to clarify the nature of the transition that took place in the process of transformation from what Polanyi calls a “paternalistic and regulatory economy” (PRE) to a “self-regulated market economy” (SRME). One of the key elements is that in a PRE, markets are subordinate to social structures, and are regulated so as to minimize the conflict between social and market structures. In contrast, market societies subject the social structures to the discipline of the market.

To clarify the strong conflict between market norms and social norms we note the following features of the PRE or traditional economies:

- 1) PRE’s are organized into self-sufficient communities; that is, all requirements are produced within the community.

- 2) Because of self-sufficiency, trade occurs only in luxuries (like spices) and not essentials (like food-grains). This makes trade of secondary importance.
- 3) Communities acknowledge the right of every member to a livelihood, and accept collective responsibility for all basic needs of members.
- 4) Within a community markets exist, but social responsibility ensures that everyone can survive without necessary recourse to the market.
- 5) This also means that money does not play a vital role in the survival of the community.
- 6) As a consequence, people are valued for character, skills, knowledge, spirituality, and other social competences, not for wealth.

In all of these areas, SRMEs are directly opposite.

- 1) SRMEs trade in essential commodities, both within and without communities.
- 2) This makes trades, and markets, essential to the survival of the communities.
- 3) Because of needs of production, markets promote the right to work, instead of the right to a livelihood. Labor markets normalize the idea of buying and selling human lives on the marketplace.
- 4) Harsh conditions for those who cannot or do not find work are an important ingredient for creating motivations necessary for a labor market.
- 5) Because trade requires money, and trading is essential for both individual and social survival, money plays a vital and central role in SRMEs.
- 6) Because of the central role of money, wealth becomes the prime indicator of social status in such societies.

This brief analysis provides a critical understanding of the basics of a capitalist economy. A complex, detailed, and book length exposition of the ideas summarized above is presented in Polanyi (2001 [1944]). An article length summary is presented in Zaman (2010).

3. Financial Institutions: Mechanisms & Spirits

To understand the functions of banks and financial institutions, it is essential to first understand the driving spirit behind these institutions. This spirit is the “pursuit of wealth” as all three authors cited above have indicated. Although there have been many critiques of these authors based

on various issues, none of the critics has denied the validity of this central point. We first turn to description of this basic spirit.

3.1 Pursuit of Wealth

The pursuit of wealth as the main objective of life has been universally condemned in traditional societies. In nearly all cultures and religions, and for most of history, greed, avarice and pursuit of wealth have been considered harmful and evil. For example, Taoist philosopher Chuang Tzu writes: “Do not race after riches, or you will let slip the Heaven within you.” The Bible states that it is easier for a camel to pass through the eye of a needle, than for a rich man to enter paradise. The Qur’ān condemns Qārīn and states that “Woe unto him who amasses wealth and counts it a safeguard” – this is just one of many verses condemning the accumulation and pursuit of wealth, as well as stinginess and greed.

The legitimization of the pursuit of wealth was carried out by the Western nations via a slow process stretching over centuries. The early phases of this process have been described by the three authors cited above. However, the process proceeded at a much faster pace in the course of the twentieth century. For example, Keynes understood very well that pursuit of wealth was a bad thing – “a disgusting morbidity” – but he felt that spreading this vice would lead to the accumulation of wealth. Later, this wealth would provide the solution to all human problems, at which point human beings could abandon greed and become kind and generous. The generation which followed Keynes came to believe that pursuit of wealth was a good thing, provided that it was subject to standard social constraints. The successive generations elevated the pursuit of wealth to the sole objective of life. For example, Nobel Laureate Milton Friedman (1982, p133) argued that it was required of corporations to pursue profits, without regard to social considerations: “Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible”. The Wall Street mogul Ivan Boesky famously proclaimed: “Greed is good.” Similarly, influential philosopher Ayn Rand proclaimed the “Virtues of Selfishness” and acquired a dedicated coterie of followers, including Alan Greenspan, in charge of US monetary policy for decades. The results of spurning the collective wisdom of humanity, and encouraging the single minded pursuit of wealth are summarized by Harvard Professor Zuboff (2009):

‘I spent a quarter-century as a professor at the Harvard Business School, including 15 years teaching in the MBA program. I have

come to believe that much of what my colleagues and I taught has caused real suffering, suppressed wealth creation, destabilized the world economy, and accelerated the demise of the 20th century capitalism in which the U.S. played the leading role.’

3.2 Functions of Banks

One of the central functions of banks is to collect deposits from small depositors by offering them interest, and then to provide the collected amount to wealthy investors in the form of interest based loans. This inevitably results in the transfer of wealth from large numbers of the poor to a small group of the wealthy. As we will frequently need to refer to this phenomenon, we label it for easy reference as the “*The Vacuum Cleaner Effect*” which collates the wealth in the loot bags of a small minority consisting of the powerful and wealthy elites in a society.

Banks also have certain other functions:

- 1) Storage and safekeeping of wealth
- 2) Collection of wealth from diverse investors for participation in Joint trading ventures.
- 3) Transfer of wealth for purposes of long distance trading.

Institutions providing these major functions have been available since early times in Islamic societies and others. This should not lead to the misunderstanding that banks have been there since early times. None of the above three functions rely on the institution of interest, whereas modern banks cannot function without interest.

Money is accumulated from small depositors by offering them a small amount of interest as payment. Large multiples of the money deposited – from five to twenty times – is then loaned out to large capitalists to allow them to generate even more money. This involves a process of money creation by banks which is discussed in detail in textbooks on money. Both of these institutions – modern paper money, and fractional reserve banking – are complex modern institutions which require deeper investigation to bring out their hidden features. However, it would go too far from the main issues under discussion here to go into this detail. Briefly, we may refer to the recent results of Piketty (2014), who shows that returns to financial sector are large and increasing, resulting in increasing concentration of wealth among a tiny proportion of those who are already wealthy. This process of concentration is explicitly forbidden in Islamic teachings.

Banks are institutions which encourage accumulation of wealth, by offering a small amount of interest as a reward for saving¹. The reason that this is an illusion is that in modern banking with unbacked paper currencies, the interest on deposits is a cause of inflation, which actually wipes out all the apparent increase. However, the link between the two – interest and inflation – is hidden. Again this topic is too complex to develop within the context of the present paper, but a brief sketch of the mechanism is as follows. Banks pay interest to depositors by loaning out money at higher interest. Paying back this interest requires more money than actually exists in the system, and calls for creation of money. This new money is created by two mechanisms. Typically central banks have accommodative monetary policies to suit needs of business, and therefore create new money as demanded. Also, the banking system can create new money via additional loans and new loans are taken to repay principal and interest of old loans. In brief, the requirement of paying interest leads to creation of the money required to pay this interest. Creation of excess money leads to inflation.

4. (False) Theories Needed to Sustain Market Society

The extremely influential Western philosophy of logical positivism effectively rejected the idea of the spirit and spirituality. From this superficial point of view, it might appear that there is no relation between the social phenomena discussed above, and the structure and function of financial institutions. The purpose of this section is to bring out the linkages.

The operation of the ‘*Vacuum Cleaner Effect*’ for channelizing the wealth to the rich and the powerful has been documented in Piketty (2104) and in Stiglitz (2012), as well as many other recent authors. One immediate result of this effect is creation of dramatic and increasing inequalities. While executives buy crocodile leather briefcases priced at \$20,000 or more, vultures prey on African children who starve to provide these luxuries to the rich.

Policies which create increasing concentrations of wealth at the top are contrary to the interests of the large majority of the population. In the imperialist and colonialist era, such policies were carried out by brute force smashing of protective institutional and social structures within self-sufficient societies, expropriation of land, and impoverishment of natives

¹ This increase is actually an illusion, as the Qur’ān clearly states (2:276) -- Allah hath blighted usury and made almsgiving fruitful.

to create a labor market. However, such policies could not be carried out within socio-political structures (like democracies) which are responsive to the needs and desires of the majority. Diverse means are utilized to acquire consent and cooperation of the majority in order to be able to enact these policies, where brute force cannot be used. An essential requirement for creating a Vacuum Cleaner effect is to make this palatable to the vast majority of those who will be hurt, by hiding the truth, manufacturing consent and perverting democracy. All this is accomplished by means of control of media, education, and making of false theories which support status quo. In this section, our goal is to discuss the some false theories which lie at the heart of the propaganda efforts needed to sustain a society based on pursuit of self-interest at expense of social interests.

4.1 Re-interpretation of Religion

Original Christian teachings are quite hostile to the spirit of capitalism. The Bible condemns the wealthy, bans usury, encourages social responsibility, and praises poverty. For example, Jesus (pbuh) is reported to have said to one of his disciples: "You lack one thing; go, sell what you have, and give to the poor, and you will have treasure in heaven; and come, follow me." Both Tawney and Weber have described in detail how the teachings of the Church were re-interpreted to create room for the pursuit, acquisition and accumulation of wealth. Troelsch (1992) provides a much deeper analysis of the complex inter-actions between theology and the emergence of capitalism, and the numerous battles between religion and capitalism which led to the emergence of modern society. This story is quite complex because factions which sought to accommodate usury / interest and accumulation of wealth fought a pitched battle with the majority which did not want to make such accommodations.

One point of importance here is that emergence of capitalism required adjustments of cultural norms – as already discussed, market norms are in violent conflict with traditional norms. The second point is that the history of how Christianity was adjusted to suit capitalist norms, as narrated by Troelsch (1992) is of great importance to us as Muslims. This is because a similar effort is currently under way in Muslim societies. Verses from Qur'ān and traditions from the Prophet (pbuh) are being used to legitimize pursuit of wealth, pursuit of self-interest and luxuries, as well as to provide alternatives to interest and other prohibited transactions. As a result, many educational institutions have changed their motto from "*Enter to Learn, Leave to Serve*" to "*Enter to Learn, Leave to Earn.*" It is through such means that capitalist norms come to prevail in traditional societies.

4.2 Popularizing the theories of Concentration of Wealth

How the idea that '*concentration of wealth at the top is good for all*' can be sold to those whose wealth will be captured and transferred to a tiny minority of the populations? One of the powerful weapons required is the creation and spread of false economic theories. Some of these are discussed below:

4.2.1 Trickle down Theories

The idea that as wealth accumulates at the top, it will automatically trickle down to the bottom – a rising tide lifts all boats – is known as the trickle-down theory. This theory has been disproved so often by so many authors that it is hardly worth listing all the empirical evidence against it. Even economists who perpetuate these theories feel embarrassed at having to defend it, and often DENY that they believe this theory. Nonetheless, this theory is disguised within the models and messages contained in nearly all modern textbooks on growth theory being taught in contemporary economics departments all over the world. As a “simplifying assumption” in such theories, we assume that the nation consist of one person – automatically then, benefits of all economic growth go to all the people, since questions of distribution are suppressed. The widely used Solow growth model and the DSGE model are examples of this process. In face of strong empirical evidence to the contrary, it is proclaimed that economic growth is the main mechanism for elimination of poverty meaning that growth which adds to the wealth of the already wealthy, is good for the poor.

4.2.2 Inevitability of Concentration

The economic system is thought of as being driven by natural laws, which automatically lead to a concentration of wealth at the top. Interference with these laws would lead to a disruption of natural processes of economic growth, and undesirable outcomes for all. As one among many examples of this idea, Kuznet's Law states the initial stages of economic growth are accompanied by rising income inequality.

4.2.3 Desirability of Concentration

Hayek, Friedman, Ayn Rand and many other prominent personalities have forcefully advocated such views in popular writings targeted towards general audience. The world is a jungle with survival of the fittest. In such a 'dog eat dog world', it is inevitable that a few will be the lords and most will have miserable lives. Within such a worldview, it is essential to strengthen the hope of the poor that they MIGHT make it to the top. The

DREAM that they could be one of the lords, enjoying unlimited wealth and power, allows the poor to accept the oppression and injustice to which they are subject. Such dreams act as the opium of the people today, making them feel content with their lot, and unable or unwilling to unite in a struggle for change towards greater justice. Hollywood has become an extremely powerful weapon in the hands of the wealthy to promote the vacuum cleaner effect to the poor.

4.2.4 Comparative Advantage

Theories which make poverty palatable to the poor are also applied at the national level to make poor nations accept their lot. One of these theories is that of comparative advantage, which suggests that the poor nations should concentrate on production of raw materials, while the rich countries should run the industries. Attempts to industrialize by the poor countries run against the law of comparative advantage. This theory was invented in England after it had acquired a fifty year lead over the rest of the world because of the industrial revolution. It was successfully enforced by the means of brute force in the colonized world, which never got the opportunity to industrialize – attempts to do so were ruthlessly quashed by the colonial powers. Both Japan and China were invaded, and the only terms demanded after their surrender was free trade with the West, enforcing the comparative advantage theory. In Europe, Friedrich List saw through this game, and developed the theory of infant industries, which required protection from free trade. Using his theories, Europe put up barriers to trade with England, and thereby developed their industries without threat of competition from the far more advanced industries of England. The only countries with sufficient power to protect them from competition with England were USA and Europe, and these were also the only countries which achieved industrialization.

4.3 Re-defining Morality

It is only the bonds of social solidarity which allow collective action on part of the large numbers of the poor. This is the only power which can counter the power wielded by the rich and powerful elite, who are the beneficiaries of the vacuum cleaner effect mediated by financial institutions. To counter this potential threat, morality is redefined in a way that dissolves social bonds and encourages individualist and materialist thinking.

One of the clearest articulations of philosophies which favor the wealthy has been given by Ayn Rand. Whereas traditional society emphasizes duties, responsibilities and social interconnectedness, the core

of Rand's ideology is a rejection of moral obligations to others. Rand writes, "If any civilization is to survive, it is the morality of altruism that men have to reject." While Rand praises the virtues of selfishness, she considers kindness, charity, generosity and forgiveness as vices of the weak. The only social problem, according to Rand, is that the government regulates business that is unfair to the wealthy. As Alan Greenspan, a devotee of Rand, infamously stated before the 2007 global financial crisis: "It is precisely the 'greed' of the businessman or, more appropriately, his profit-seeking, which is the unexcelled protector of the consumer."

"Looking out for Number 1" became a bestseller in the 1970's in the USA. This and many other books argued that it is our prime duty and moral responsibility to protect our own self interest, even at the expense of others. Courses in "assertiveness training" were offered to people to overcome the shyness we feel in asserting our own selfish interest over our social responsibilities. Current economics textbooks teach that it is rational behavior to maximize self-interest, with no regard for others. Muslim imitators argue that Islam carries the same message. Hollywood movies uniformly give a hedonistic "Seize the day" message – we only live once, so we should grab any opportunity for pleasure, regardless of social disapproval, or of harm to others. These messages have led to dissolution of social bonds in the west, even the most basic one of the family. Without social bonds, society becomes a jungle, and no collective action against the minority elite, who benefit, is possible.

Another instance of transformation of morality is provided by the health sector which has been regarded as a noble profession with intent to serve the mankind. The idea that a doctor would intend to make personal profits from the misery of the sick would be considered morally abhorrent in traditional societies. As the market mentality takes over, these sentiments have changed substantially. Now, the profit making mentality of doctors leads to a huge number of un-necessary surgeries, medical procedures, prescribed drugs, with legalized kickbacks from pharmaceutical companies, and other highly un-ethical methods of making money from patients. Similarly, drug companies follow highly un-ethical practices in marketing un-necessary medicines by generating fear. At the same time, life-saving "orphan" drugs which would save lives of many are not manufactured if the clientele is poor. Large corporations market baby milk powder to poor mothers knowing that a large number of infants will die due to non-sterile preparation and lack of immunity provided by breast milk. Market morality is directly in conflict with human values.

5. Institutional Mechanisms for the Vacuum Cleaner

Just like the spirit acts through the flesh, so theories and philosophies cannot bring change in the real world unless they are embodied in the form of institutions and practices within a society. Here we provide an analysis of some of the crucial parts of the capitalist system of economic production.

5.1 Subversion of Democracy

In a genuinely democratic society, any policy contrary to the interests of the majority could not be carried out. But, creating a vacuum cleaner effect which channels wealth from the majority to a small minority requires disruption of democratic processes. Many channels and methods are used for this disruption. Of course the first step is the construction of ideologies, philosophies and theories which idealize the workings of free markets as being best for the society as a whole. Some of these have been discussed in the previous section. The topic of this section is the second step, which is the propagation of these ideologies to penetrate the minds of all living in the society.

Educational Channel: An important channel is the university, where economics departments teach the virtues of the free market. For example, a leading macroeconomics textbook by Manikiw and Taylor (2007) asserts that free market economies work very well, and that this is due to pursuit of self interest by all participants, and NOT due to love and kindness. Amir-ud-Din and Zaman (2012) prove that this is wrong, but it is widely believed and taught to the students of economics and business. As a result, there exist studies showing that such students are more selfish than those in the other departments. In a publicly available and widely distributed lecture given to Harvard undergraduates, Michael Sandel shows that morality is relative and contextual. People can become cannibals if necessary for survival, and if murder leads to saving more lives in the long run, it is justified. Leading educationist Gatto (2002) argues that the function of public education is to provide docile laborers and consumers as human resources to the capitalist system of production of wealth, rather than holistic development of human capacities of the students. Julie Nelson (2012) has argued that economists have “poisoned the well” from which we get our ideas about the relationship between economics and ethics. Similarly, Mitchell (2003) argues that public education is designed to produce ignorant and ill-informed students whose thoughts can easily be molded by the propaganda of the ruling classes.

Media Channel: A second important step is the control of the media. Since 1983, the number of corporations owning most newspapers, magazines, book publishers, recorded music, movie studios, television and radio stations have shrunk from 50 to five "global-dimension firms, operating with many of the characteristics of a cartel" - Time-Warner, Disney, News Corp., Viacom and Bertelsmann AG based in Germany. Also large and dominant are companies like cable giant Comcast and corporate behemoth GE with its NBC television and radio operations. Obviously, only a few voices of giant corporations can be heard by the vast majority of the public. Strong legislative efforts are being made to put the Internet under the control of these giants as well. Chomsky and Hermann in their book entitled "Manufacturing Consent" and subsequent work have argued that corporate control of the media has been the method used to manufacture consent to odious policies against the interests of the majority of the population. For example, the bailout package after the financial crisis of 2007-8 gave trillions of dollars to bankers who had done criminal activities leading to the crisis. At much less cost, the crisis could have been averted by bailing out the delinquent loans of mortgage holders, but this option was never on the table for discussion. As a second example, a secret public relations campaign illegally funded by the White House led the public to believe that Al-Qaeda was present in Iraq, and that Iraq had Weapons of Mass Destruction, even though massive evidence to the contrary was available². The compliant media created and spread the deceptions allowing for making a war which cost trillions of dollars and hurt the public interest, while fattening the coffers of a small military industrial complex.

Language and Power: This phenomenon has been explored at book length by Fairclough (1989) in "Language and Power". Control of media and education makes it possible to control use of language. In turn this leads to an astonishing amount of control over ways of thinking available to the people who are conditioned by the education and the media. A simple example is furnished by Chomsky in the context of the Vietnam War. Two opposite positions of Hawks and Doves were vigorously debated. The Hawks held that USA must defend freedom everywhere in the world, while the Doves argued that if freedom is threatened in remote corners of the world, it was not the responsibility of the USA to go to the defense of freedom. The reality that USA was attempting to replace the French imperialists as the new colonizer of Vietnam was not on the table for discussion. Language was used in such a way as to prevent the public

² See Kucinich/Wexler impeachment articles.

from even being able to think about this possibility. As a second example, consider the war on Terror. In the minds of the public, terror has been defined as an exclusive Islamic phenomenon. Official FBI website data shows that from 1980 to 2005, only about 6% of terrorists attacks were due to Muslims. More recent Interpol data shows that the equivalent figure in Europe is only around 1%. Nonetheless, all incidents where Muslims are involved are labeled as “terrorism” while in other contexts the term is not used; creating the public impression that terrorism is exclusively Islamic. These same words cannot be used in context of US wars leadings to death of millions of civilians, as well as financing of wars and terrorist operations throughout the world. It makes impossible for vast majority to think these thoughts. This kind of mind control is essential to the survival of capitalism, as well as the operation of the vacuum cleaner effect.

Financial Channel: Many have noted the subversion of democracy by dedicated lobbies, spending millions on quasi-bribes to senators, congressmen etc. to promote their causes. For instance, in 2012 alone the oil and gas lobby spent \$140 million to advance their interests in the U.S. They have successfully blocked vital environmental reforms required for preserving the planet from climate change catastrophes. Similarly, there is a long list of corporate as also political lobbies which use different methods to finance extremely expensive propaganda campaigns to pursue their vested interests. From regulatory capture, we have now gone to the stage of regulation capture. In the wake of the global financial crisis 2007, there was a widespread move to regulate the finance industry to prevent a repeat. However, the finance industry was sufficiently powerful to prevent any regulations with bite to be passed.

5.2 Popularizing Consumerism

One key element of a capitalist society is the encouragement of unlimited consumption. The capitalist system produces a massive amount of surplus – products which are not really needed. The process of production utilizes planetary resources on a global scale, laying waste to rivers, mountains, forests, and destroying habitats for plants, animals and birds as well as humans. The overproduction occurs because the spirit of capitalism is an irrational pursuit of wealth for its own sake, without any consideration for utility or functionality of production for wealth. As far as production is concerned, an essential ingredient is the creation of the love of wealth. Unless they are made happy by possession and counting of the wealth, they will have no incentives to undertake this massive overproduction. At the same time, the vast amounts of overproduction require creating vast overconsumption. However, restraining personal desires and caring for

others in need is the basis for any social order. Recognizing this, Durkheim argued that “modern society, and especially the economy, unleashes consumers' boundless desires, it destroys the moral basis of social order” (Slater 1997, pp. 74-77).

Selling Illusions: The process of marketing is an essential component of unleashing boundless desires within consumers, which are normally kept in check via social restrictions. Research like that of Leach (1993) strongly suggests that mass consumption was produced by manipulating consumers' desires to be well dressed, good looking, and beloved; to surround themselves with visions of beauty; and to surrender common sense and sobriety to individual dreams of self-enhancement. Marketing creates dissatisfaction, a sense of need, and an illusion that buying a product can fulfil that need. For example, a cigarette ad shows a strong rugged man smoking, riding on horseback, surrounded by natural beauty, as well as a beautiful woman. Of course, if you smoke, all you will get is lung cancer. Similarly, movies and ads of people living lives of fabulous luxury encourage the consumer to think that he/she too may achieve this standard of living. Widespread discontent created by these capitalist mechanisms is documented in books like “Loss of Happiness in Market Economies” by Lane. The commodity chain, which involves creation of a product, and simultaneous creation of consumers for the product, is also a process to promote consumerism as evident from tea, opium and tobacco; the production of tobacco requires simultaneous production of consumers for this deadly product.

5.3 Financial Institutions

Financial Institutions form a core component of the institutions required for a capitalist society to function. Because of imbalances in wealth, the consumers may not have capacity to purchase the goods. Even if they did, needs measured in terms of goods could only be finite, while the lust for gold is infinite. This leads to the necessity of production of money, to allow for consumer payments for goods. After the money is acquired by the producers, the financial institutions play a key role in preservation and accumulation of this wealth, by diverse means.

Banks offer interest rates to attract the deposits of the masses. The deposits are given in the form of loans to the wealthy. On these loans, the capitalists generate much larger profits than is paid back to the depositors, creating an ever increasing inequality in the society. Stiglitz (2012) and Pikety (2014) have documented the increasing inequalities and their negative impact on society. The problems created by interest rates have

been listed in Zaman and Zaman (2002). Here we just want to note the social impact of interest. Banks encourage people to store money for future use, instead of spending on the immediate needs of others. However this is an extremely inefficient and harmful mechanism for society. We illustrate the problem by the means of a concrete example.

The risks of cancer are low for the average individual, around 1 in 100,000. The costs of treatment are very high, let us say \$100,000 for the sake of the argument. In a society of 100,000 people operating under the social norms of cooperation and brotherhood, each person needs to save only \$1 to protect him/her. If anyone in the society has cancer, all may contribute to provide a solution. In contrast, in a society of selfish individuals with no social responsibility, every individual would be concerned to build up savings sufficient to protect himself from cancer – potentially \$100,000 of savings for each individual. In the absence of social responsibility, each individual accumulates precautionary savings since he cannot count on the help of others in times of need. A traditional society can serve the needs of all members with far less excess production.

6. Impact on Society and Individuals:

In section 5, we discussed some of the institutional mechanisms that are used to propagate capitalistic philosophies throughout the society. In this section we discuss some of the impacts of these ideologies and institutions on society and individuals.

6.1 Life in the Jungle

The market society resonates with the philosophy of Social Darwinism: life is a competition with winner-takes-all outcomes. The spread of this ideology leads to the conclusion that might-makes-right. Harvard professor Michael Sandel lectures on Justice that all morality is relative, and cannibalism may be justified if killing and eating a fellow human leads to survival of the rest. It is no surprise that the USA has seen a dramatic increase in random shootings, where apparently normal people pickup guns and kill the innocents. These are lessons that leaders of USA must learn to conduct current international politics. As Halberstam (2002) writes, graduates of the most elite institutes in the USA had no regrets in ruthless elimination of large civilian populations in Vietnam. US Ambassador Madeleine Albright did not feel embarrassed in saying on public TV interview on Nightline that the lives of half a million Iraqi children were a worthwhile price to pay for achievement of US foreign policy goals.

All of the colonial era testifies to the ruthless pursuit of profits at the cost of destruction of functional societies all over the world. When 90% of the globe was conquered, and overseas expansion policies exhausted, European powers started to fight each other. The two world wars, both due to pursuit of financial gains, led to the death of around 50 million, in the bloodiest century on the history of the planet. All of this continuing bloodshed has been due to capitalist pursuit of profits, and not due to religious extremism.

6.2 Arrested Spiritual Development

Promotion of selfishness, pursuit of wealth, and hedonistic pleasures leads to materialism and loss of spirituality. In the West, the concept of spirit and spirituality has been pushed out of the intellectual realms of knowledge. For instance, in her book entitled “The Making of the Modern University: Intellectual Transformation & the Marginalization of Morality” Julie Reuben (1996) writes that in the early twentieth century it came to be widely believed that morality was not part of human knowledge. Lessons on ethics, civics, and social responsibility were gradually dropped from the curricula of the universities.

Compassion: One of the most important components of spirituality is the instinctive and intuitive knowledge of other human beings. The connections which unify us all as human beings are perceived on the spiritual level, but are absent for those who fail to develop spiritually. Machiavelli advocated the use of force, treachery and fear as valuable instruments for the rulers. Political columnist Lawrence Ludlow (2005) has described how these tactics form the backbone of modern politics – the use of fear and deception to persuade the public to comply with wars and restrictions of personal liberties, which help the few at the expense of the many. The tortures at Abu-Ghraib and Guantanamo Bay have received approval at highest levels, and movies have been made to celebrate and normalize such behaviors.

Social Networks: Materialism encourages the pursuit of pleasure at the expense of society. Conspicuous consumption, designed to make others envy us, is encouraged. This could be contrasted with the spirituality of the second *khalifah*, ‘Umar (ra), who refused to eat refined bread because he felt that not all in the *ummah* could afford to eat it. Ultimately, the policy of pursuing self-interest without regards to society has extremely harmful effects on everyone in the society. Psychological research shows that the strongest determinants of long run happiness are social networks – you are happy because you are loved, and enjoy respect and friendship

within an established community. Paradoxically, the policy of seeking pleasure for oneself without caring for others destroys the most important source of pleasure for human beings, leading to lonely and unhappy lives.

Spirit & body duality: This refers to the idea that the spirit and the flesh are separate entities. Materialism leads to the neglect of the spiritual dimension and focus on the body only. This leads to many types of problems which remain mysterious to materialists, because denial of spirituality makes it impossible to see or understand spiritual diseases. The most obvious manifestation of lack of spirituality is the multi-billion dollar pornography and prostitution industry in the USA (Hedges, Chapter 2, 2002), which subjects humans to extremes of degradation, for sale to others who enjoy watching heinous acts.

6.3 Everything for sale Societies

In fact, human lives as infinitely precious and the most valuable social treasures cannot be purchased in the marketplace. Nonetheless, the market society attempts to engulf all transactions within the marketplace. When everything is for sale, all things are evaluated by their worth on the marketplace. Some of the harmful effects of encapsulations of social relations within a market economy are listed here. This is just a short summary of some key issues. Several books dealing with these effects are available – see for example, “The Costs of Living: How Market Freedom Erodes the Best Things in Life,” by Barry Schwartz. Loss of spirituality leads to loss of meaning and purpose in life; there has been a dramatic increase in suicides in the USA recently, attributed to an increase in unemployment, homelessness and bad economic conditions results from the global financial crisis.

One impact of evaluating human beings by their market value has been the rise of feminism. One of the most important jobs in a society is that of bringing up children, since this determines the future of the society. If all children receive the training to be kind, compassionate, and excel, the society created by them will be a humane society. In contrast, if the children are all trained to be ignorant barbarians, then the society will revert to barbarian in one generation. The primary responsibility for this task of training children has been entrusted to mothers. However, this is not a paid job. As a result, this job of central importance became valued at zero in the market society. When the central task of women lost social significance because it had zero wages, women demanded the right to work at jobs, so that they too would become valued members of society. A woman in USA is embarrassed to say in public that she is just a housewife

and mother, while being proud to be a waitress or a barmaid – at least these jobs earn a pay. However, the result of this devaluation of the traditional job of women was the breakup of the family.

7. Islamic Finance

The USA used the shock-and-awe strategy to achieve military victory in Iraq. The idea was that an overwhelming use of massive firepower, combined with complete destruction of infrastructure and life support would leave the enemy paralyzed with fear and unable to think or act. Whether or not the strategy was successful in Iraq is debated, but it does seem clear that the Muslim *ummah* as a whole is in the grips of shock-and-awe when it comes to Western accomplishments. For many leading Muslim thinkers, if an idea or an institution comes from the West, this is enough proof of its superiority, and therefore of the necessity for us Muslims to imitate this idea. It is not necessary for us to think through the details and make an independent evaluation of the worth of the idea, before deciding whether or not we wish to adopt it into Islamic societies. We start with a simple example.

7.1 Shock-and-Awe: All things West admires are Islamic

Both Japan and Turkey were defeated in World War I, and had economies in shambles. Starting from an equivalent position of zero, both sought to imitate their Western victors in order to achieve the dominance that had led their victory. The Turkish leader, Ataturk, changed the Turkish script to Roman, to cut off the Turks from access to their rich intellectual heritage and arranged translation of Western novels into local language. He created government institutes for Music, Theater and Ballet, and sought to spread Western cultural values. These reforms led to a deeply divided society, with severe conflicts between traditional and secular elements, and did not bring positive economic growth. In contrast, Japanese sent out students to the West to study Engineering, Mathematics, and Medicine. They translated thousands of technical books into Japanese. The state provided massive resources to launch the process of industrialization. The success of their strategy was apparent when they joined the ranks of the wealthy nations of the world.

As a second example, consider the concept of democracy, which is universally admired in the West. Under the influence of shock-and-awe, many Muslims have claimed that Islam teaches democracy. This can only be the result of a refusal to think about the nature of the polity under the rightly guided *khilāfah*. It is clear that politics of Islam rests on *khilāfah* and *shūrah*, with the sacred laws of Islam being beyond the reach of

democracy. On the other hand, all things including the constitution, laws, and leadership rest on majority opinion in a democracy. It has been shown by many authors that Hitler's extermination of the Jews followed democratic principles, with majority vote in his favor. See Zaman (2009, Section 5) for a discussion of the political framework of the Islamic state, and how it differs from, and is superior to a democracy.

The point of these examples is that blind imitation of the Western innovations is not the path to success. Each innovation must be assessed and analyzed for its worth and value. While useful innovations should be adopted, failures and harmful innovations should be avoided. Because of the shock-and-awe factor, Muslims are not doing due diligence in this process of evaluating the Western products before imitating them. This has been true in nearly all dimensions, and especially so in the field of Islamic Finance. We illustrate with a few examples.

7.2 Islam versus Economics

When the Western economists argued that greed is the prime motivating factor for humans, and maximizing the self utility is optimal and rational, Muslims agreed. They came up with verses from the Qur'ān and traditions of the Prophet (pbuh) to support this point of view. They distorted the true meaning of these verses, and ignored the large number of traditions in conflict with these ideas. For a more extended discussion, see Zaman (2014a, Islam Versus Economics). Zaman (2012b) discusses ten dimensions of conflict between the Western views on economics and a genuine Islamic methodology for economics. In general, whenever there was a conflict between Western teachings and Islamic traditions, Islamizers sought to re-interpret Islamic tradition to make it conform to the West. We give a few examples from finance before proceeding to our main arguments of this section.

Banks as Western institutions which gather deposits from small savers and use these to make loans to the wealthy had never existed in the Islamic tradition. Confronted with the fact that banks operate with interest, which is banned in Islam, Muslims sought to devise ingenious ways to get around the restrictions of the Sharī'ah, and replicate interest based transactions. There was an attempt to find loopholes and artificial transactions so as to replicate all Western financial instruments. For example, a bond is a simple instrument which pays a fixed interest on a monthly / yearly basis for a fixed term, at end of which the principal is returned. It is clearly **ḥarām** in Islamic law. Very complex instrument (*ṣukūk*) have been devised which are considered equivalent to the Bonds,

even by the Western experts, due to their feature, but are declared compliant with Islamic law by the Sharī'ah scholars who did not consider the REASON as to why interest, bonds, derivatives and all other institutions and instruments involving *ribā* and gambling have not been permitted by Allah. We would be better off if, instead of replicating Western instruments, had paid attention to our own traditions and went back to traditional Islamic methods for finance. This position has been argued in Zaman (2015c, Building Genuine Islamic Financial Institutions).

7.3 The Failure of Banks

A careful examination of the history of banks in the West leads to the conclusion that these institutions have caused extreme harm and damage to the western society. There is a good reason why Allah (swt) has banned the transactions which form the basis for Western banking. There is no reason for us to try and replicate similar institutions, so as to cause ourselves the same harm that the West has suffered.

Virtually from the start of banking, the banking transactions have been based on deception and gambling as their history of evolution from the Goldsmiths issuing notes to depositors, Hedge Funds getting money from the 'notionals' and short selling. Banks resulted in the biggest crisis in 1929, where the Great Depression wiped out the savings, and destroyed the livelihoods of millions. Marginal agricultural areas were turned into a "Dust Bowl" where nothing grew, because farmers were unable to invest in the land. The depression persisted for over a decade and scarred the lives of millions globally. Why did it happen? A hot stock market yielded high profits to all investors in the 20's. Seeing the tremendous profits to be made, the banks jumped into stock market utilizing the depositors' money. They would retain the profits, but in case of loss, only the depositors would be damaged. The stock market crash in 1929 wiped out the banks and caused a string of bank failures across the country.

The Great Depression clearly demonstrated the weakness of the pure capitalistic system, so many regulations were introduced to counter the damages which the pure pursuit of profits leads to. Stringent banking regulations were passed and enforced in the USA. One of these was the Glass-Steagall act, which prevented American banks from investing in stocks, or undertaking any risky investment with the depositors' money. Regulations prevented banks from growing too big to fail, and also provided federal insurance for deposits at banks. Under these heavy regulations, the banking industry thrived, with only minor and insignificant occasional bank failures until the early 1980's.

The Reagan-Thatcher era in the 1980's removed all above regulations for a return to free market capitalism. The bankers went on a wild speculative spree resulting in a huge loss when certain Latin American investments collapsed. Learning from the Great Depression, instead of allowing the banks to collapse, the government stepped in to rescue them. However, the bailout cost billions of dollars. Nicholas Nessim Taleb has calculated that the cost of the bailout was greater than the ENTIRE profits of the banking industry over the twentieth century. This means that in purely financial terms, the costs of banking were greater than the benefits derived from it. The Glass-Steagall Act repealed in 1999, the banks started investing – gambling with the depositors' money on a large scale. This led to a collapse in a short time, in the shape of the global financial crisis of 2007-8. The effects of this crisis continue to be felt, as the figures on homelessness and hunger in the USA are at the highest levels since World War 2. The crisis again wiped out all the gains from banking over the previous decades. Even judged on the very narrow basis of purely financial costs, banking and financial institutions have been highly unsuccessful. Periods of rapid growth and prosperity are more than annihilated by the numerous crises, minor and major, that are caused by the propensity of banks to gamble with other people's money and lose.

Even on the narrow basis of monetary costs and benefits, banking has been singularly unsuccessful, and there is no reason why Muslims should seek to replicate these institutions. If we go beyond the narrow frame of pure financial costing, then the list of reasons for prohibition of interest and gambling based institutions become even larger and stronger. These institutions cause massive inequality, increase greed and miserliness, and weaken the idea of social responsibility. Instead of replicating such banks, we should concentrate on Building genuine Islamic financial institutions, as argued in Zaman (2013).

8. Conclusions

In conclusion we recapitulate the message of the paper, which is contrary to widely held beliefs, especially among most of those involved in the movement of Islamic banking. One of these widely held beliefs is that capitalism is quite similar to Islam. Although there are some surface and superficial similarities, the spirit of capitalism is the irrational pursuit of wealth for its own sake. This is specifically prohibited in Islam. Islam envisions communities of generous and cooperative individuals united by social obligations and responsibilities. Although markets exist, they are subject to regulations, and are subordinated to the society. In these respects, Islamic societies resemble the paternalistic and regulated

economies (PRE's) of pre-modern Christian societies of Europe. In fact the Self Regulating Market Economy is diametrically opposed to the PRE's in many dimensions.

In a similar way, Islam is radically opposed to capitalist values. Financial institutions are built to support capitalist values which center around the individualistic pursuit of wealth and luxury, without any moral restraints. Some cosmetic changes as Islamic financial institutions are doing currently will not affect the spirit of capitalism which is opposed to Islam. The current efforts to Islamize the Western financial institutions with a capitalistic approach and society would go in vain. Change in the approach, mindset and structure of the financial institutions is pre-requisite for doing business according to the principles of the Sharī'ah that could benefit the economies and the societies.

The Prophet Mohammad (pbuh) brought a radical message that transformed the ignorant and backwards Arabs into the leaders of the world. It created a new and radically different culture which dominated the world for more than a thousand years. Today, the political, economic, and social structures of Islamic societies have been deeply affected by un-Islamic values propagated by the Western media. Today the message of Islam has the same revolutionary potential that it did fourteen centuries ago. If we can learn to live this message as individuals, and create societies inspired by this message, we can create the revolution necessary to implement genuine Islamic teachings in the economic sphere, instead of blindly imitating the West. This is the challenge facing the Muslims today.

References

- Baker, C. Edwin (2006) *Media Concentration And Democracy: Why Ownership Matters*, New York and Cambridge: Cambridge University Press.
- David Barstow, Behind TV Analysts: Pentagon's Hidden Hand, New York Times, April 20, 2008.
- Friedman, Milton (1982). *Capitalism and Freedom*. Chicago, University of Chicago Press
- Gatto, John Taylor. *Dumbing us down: The hidden curriculum of compulsory schooling*. New Society Publishers, 2002.
- Halberstam, David. *The best and the brightest*. Random House LLC, 2002.
- Hedges, Chris, *The Empire of Illusion*, Nation Books, NY, 2009.
- Herman, Edward S., and Noam Chomsky. *Manufacturing consent: The political economy of the mass media*. Random House, 2010.
- Lane, Robert Edwards. *The loss of happiness in market democracies*. Yale University Press, 2000.
- Lawrence M. Ludlow, *Machiavelli and U.S. Politics*, August 15, 2005 (internet column)
- Mitchell, Richard. *The graves of academe*. Little, Brown, 1981.
- Nelson, Julie (2012), "Poisoning the Well: or How Economic Theory Damages Moral Imagination" *Global Development And Environment Institute Working Paper No. 12-07*
- Piketty, Thomas. *Capital in the Twenty-first Century*. Harvard University Press, 2014.
- Polanyi, Karl (2001[1944]). *The great transformation: The political and economic origins of our time*. Beacon Press
- Putnam, Robert D. "Bowling alone: America's declining social capital." *Journal of Democracy* (1995): v. 6 n. 68.
- Reuben, Julie A. *The making of the modern university: Intellectual transformation and the marginalization of morality*. University of Chicago Press, 1996.
- Slater, Don; *Consumer Culture and Modernity*, Cambridge, UK: Polity Press, 1997

- Stiglitz, Joseph. The price of inequality. Penguin UK, 2012.
- Tawney, Richard Henry. Religion and the Rise of Capitalism. Transaction publishers, 1998.
- Troeltsch, Ernst The Social Teachings of the Christian Church (2 volumes). Westminster John Knox Press; Rpt edition, 1992.
- Weber, Max. (1930) The Protestant Ethic and the Spirit of Capitalism: and other writings. Republished: Penguin, 2002.
- Zaman, Arshad, and Asad Zaman. "Interest and the Modern Economy." The Lahore Journal of Economics 6.1 (2002): 113-127.
- Zaman, Asad (2009), "Islamic Economics: A Survey of the Literature," Part II: Islamic Studies 48:4 pp. 525–566
- Zaman, Asad 2010. "The Rise and Fall of the Market Economy," Review of Islamic Economics, Vol. 14, No. 2, 123–155
- Zaman, Asad (2015a) "Islam Versus Economics" Chapter 2 in Handbook on Islam and Economic Life, edited by Kabir Hassan and Mervyn Lewis, Edward Elgar Press.
- Zaman, Asad (2015b) "Re-Defining Islamic Economics", Chapter in Islamic Economics: Basic Concepts, New Thinking and Future Directions, Cambridge Scholars Publishing.
- Zaman, Asad (2015c) "Building Genuine Islamic Financial Institutions" presented at 3rd International Conference on Islamic Business & Finance (2014), at Riphah University, Islamabad. Published in Journal of Islamic Economics, Banking and Finance Volume 11, Number 2 (April-June, 2015)
- Zukin, Sharon and Jennifer Smith Maguire, "Consumers & Consumption," Annual Review of Sociology Vol. 30, (2004), pp. 173-197